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SUBJECT: TURKEY-RUSSIA SIGN CUSTOMS DEAL TO RESOLVE TRADE DISPUTE

Ref: Moscow 2697

1. (SBU) Summary: Turkey and Russia signed a Customs Protocol September 18 to resolve a two-month long trade dispute between Turkish exporters and Russian Customs (see reftel) that cost Turkish exporters USD 500 million. The protocol would simplify Russian customs procedures for those exporters who, on a voluntary basis, agree to notify Russian authorities in advance about the content of their shipments. Turkish exporters, however, believe this procedure will disadvantage them with Russian importers (who insist on under-invoicing) and that the "voluntary" advance declaration will become a prerequisite for all shipments. Although both countries denied the dispute was political, the timing of the Russian customs measures -- starting days before the Georgia invasion -- has left many Turks with the impression that this was a warning that Turkey's exports can be disrupted whenever Russia wishes. End Summary.

¶2. (SBU) The governments of Russia and Turkey signed a "Simplified Customs Line Protocol" on September 18 to resolve a trade dispute that has been ongoing since July. Turkish exporters had their shipments delayed by 20-30 days by detailed inspections at Russian ports of entry. The inspections were first focused on shipments directly from Turkey, but then were extended to cover all Turkish origin goods. The tension between the two countries peaked on August 28, when Turkish Trade Minister Tuzmen announced that Turkey would start red-line inspections on Russian goods, as retaliation, but he was overruled by the Council of Ministers. Instead, the GOT brought raised this issue with Russian Foreign Minister Lavrov during his visit to Turkey on September 2. Lavrov denied Russia was discriminating against Turkish goods. The Head of the Russian Federal Customs Service visited Turkey on September 5, and declared the two sides were working on a simplified customs procedures system to resolve Turkish exporters' problems.

3. (SBU) Turkish State Minister responsible for Customs Hayati Yazici declared on September 19 that Turkey and Russia had signed a Simplified Customs Line Protocol, which would provide for "VIP treatment" to Turkish exporters who sent prior shipment declarations to Russian customs. Yazici noted that the implementation was voluntary but described it as "the best possible deal" that could be signed with Russia. Commenting on the reasons underlying the recent dispute, Yazici said customs duties accounted for a significant portion of Russian budget income, and the authorities wanted to prevent tax evasion caused by unregistered and improperly declared imports.

¶4. (SBU) The protocol removes six categories of Turkish goods from the risk profile, meaning these will be exempt from 100% screening at Russian customs: cement, fertilizers, automobile parts, non-aluminum metals, paperboard and articles, and toys. According to the protocol, companies providing their transport documents to Russian Customs ahead of time will not be subject to physical search. Russian Customs will prioritize those companies providing their invoice and tariff details, in addition to the transport information. Such companies will also be able to make use of bank guarantees in their foreign trade operations.

5. (SBU) Turkish exporters were not satisfied with the protocol. Their main concern is that the "voluntary" implementation will turn

into a requirement, and that those not providing their documents to Russian Customs in advance will continue to suffer weeks of delay at the border. The exporters also complain that the implementation will hurt demand for Turkish goods in Russia, due to increased costs with full customs declarations. Turkish exporters claim the Russian importers ask them to price their goods at lower values in their invoice, in order to avoid the tax burden. Turkish Exporters' Association (TIM) responded cautiously to the protocol. TIM President Mehmet Buyukeksi said they would watch the implementation to see if it addressed the Turkish exporters' problems. Buyukeksi noted that Russia claimed it would implement the same system with all its trade partners, which Turkey would want to see happen to avoid having its exports discriminated against for complying.

6.(SBU) Comment: Turkish authorities estimate the cost to Turkish exporters of this two-month trade dispute at approximately USD500 million. Although the authorities in both countries denied the dispute was political, the timing of the Russian customs measures -- starting days before the Georgia invasion -- has left many Turks with the impression that this was also a warning that Turkey's exports to Russia can be disrupted whenever Russia wishes, at high cost to Turkish companies. End comment.

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